CALIFORNIA FARM BUREAU FEDERATION
EXECUTIVE OFFICES
2300 RIVER PLAZA DRIVE, SACRAMENTO, CA 95833-3293 · PHONE (916) 561-5520 · FAX (916) 561-5690

VIA FACSIMILE: 202-225-8798

May 2, 2005

The Honorable William Thomas
United States House of Representatives
Washington, DC 20515

Dear Bill:

The California Farm Bureau Federation (CFBF) supports the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR). CAFTA-DR countries already benefit from duty-free access in the US market for most of their products. With this agreement California producers will benefit from lower tariffs on US exports to Central American markets and a better balance of trade will be created. CFBF supports this agreement and wants US trade negotiators to continue to find agreements that offer greater market access with some of our largest trading partners to increase California agriculture's competitiveness.

CFBF is the largest agricultural organization in the state, representing more than 35,000 farm families. With over $27 billion in farm value and 250 commodities, California leads the nation in agricultural production. More than $7.5 billion of California's agricultural production is exported annually. Trade plays a unique and important role for California. California has some inherent disadvantages because of our crop diversity, production costs and environmental standards that we apply. Therefore, trade agreements can create some winners and losers in our state. Negotiations must recognize our production practices and create agreements that increase our competitiveness. As imports in the US increase, we feel that trade negotiations should only be as a compliment to our food supply and not at the expense of our domestic food production.

Creating a Balance in Trade
CFBF believes that without an agreement, Central American imports to the US will continue to grow, while our exports will continue to be hit with tariffs in CAFTA-DR markets. This agreement between the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the United States creates greater equity between Central American Countries and the US. The American Farm Bureau Federation (AFBF) estimates US exports will increase by an additional $1.5 billion when the agreement is fully implemented in 2024.

CAFTA-DR countries will phase-out the overall average 45% tariffs that are applied to US products. Currently, US fruit and vegetable exporters face a 20-60% bound rate (allowable level) tariffs and an applied tariff average of 15% on products sent to CAFTA-DR countries. Since implementation of the Caribbean Basin Initiative (CBI) in 1984, most CAFTA-DR products enter the US market duty-free. Fifty percent of the imports from CAFTA-DR countries are fruits and vegetables with bananas and pineapples comprising three-quarters of these imports. Producers of walnuts, grapes, raisins, apples, pears, cherries, peaches, canned pears and peaches, and mixed fruit will receive immediate access under the agreement.

Gaining More Market Access for US Beef
CFBF is concerned that without an agreement, Central American beef imports to the US have room to grow, while US beef producers will continue to be hit with 15-30% tariffs on beef products entering the CAFTA-DR countries. US exporters of beef to CAFTA-DR countries are assessed an average 15-30% tariff. Exporting CAFTA-DR countries are faced with a Tariff Rate Quota (TRQ) that allows them to export up to 64,805 metric tons (mt) at a zero-tariff and 26% out-of-quota tariff once above the quota. USDA reports CAFTA-DR countries export 24,731 mt to the US, filling the TRQ by 38%. The agreement establishes immediate duty-free access for US prime and choice cut beef, and tariffs for other cuts of beef are phased out over 15 years. Costa Rica and Dominican Republic show the most potential for growth of US beef sales because of a large tourism industry that demands higher-quality beef. AFBF reports expected US growth for beef sales to be $47 million from the current $12.5 million.

Increase in Dairy Exports
Representing California's number one commodity, dairy producers are expected to benefit with increased exports to CAFTA-DR countries of cheese, whey, skim milk powder and more. The US Dairy Council reports that in the first few years of the agreement US dairy exports should see an additional $100 million in exports. U.S. dairy exporters currently face duties as high as 60 percent, and the WTO permits duties as high as 100 percent. All Central American and Dominican duties will be eliminated within 20 years, with duties on some dairy products eliminated earlier.

Increasing US Competitiveness with Other Countries
Without this agreement competing countries will continue to sign agreements with Central American countries putting them at a greater advantage when selling to Central American markets. Canada has a free trade agreement with El Salvador, Guatemala, Honduras and Nicaragua, which gives them preferential access to those markets. Mexico and Chile already receive preferential treatment on exports to Central American countries. And there are reports that many of these countries will begin trade negotiations with Europe. These countries are some of our biggest competitors in producing the same crops as California. This agreement gives us the opportunity to compete with these countries in the Central American marketplaces.

Improving the Future of Trade
This agreement is important to California producers and as the US moves forward in expanding new markets we need to pursue more agreements with countries that offer more market access for California producers. Japan, the European Union and Korea are California's major export markets, where we face limited market access because of high tariffs and significant domestic subsidies. Negotiating agreements that offer greater market access in these countries would be most beneficial to our producers.

The California Farm Bureau Federation asks for your support of CAFTA-DR when it comes up for a vote.

Sincerely,

Bill Pauli

Bill Pauli,
President